

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

ST. CLAIR HOUSING COMMISSION

Financial Statements

December 31, 2005

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

## TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Opinion	i
Management Discussion and Analysis	ii
 <u>FINANCIAL STATEMENTS</u>	
Statement of Net Assets	2
Statement of Revenue, Expenses and Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5
 <u>SUPPLEMENTAL DATA</u>	
Combining Balance Sheet	10
Combining Statement of Income and Expenses	11
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	12
Status of Prior Audit Findings	13
Schedule of Findings and Questioned Cost	14

# ***John C. DiPiero, P.C.***

Certified Public Accountant

P. O. Box 378  
Hemlock, Michigan 48626  
Tel / Fax (989) 642-2092

Board of Commissioners  
St. Clair Housing Commission  
400 South Third Street  
St. Clair, Michigan 48079

## **Independent Auditor's Opinion**

I have audited the Business Type Activities of the St. Clair Housing Commission as of and for the year ended December 31, 2005. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the St. Clair Housing Commission as of December 31, 2005, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, if fairly stated in all material respects in relation to the financial statements taken as whole.

The Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, I have also issued my report dated June 16, 2006 on my consideration of the St. Clair Housing Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Certified Public Accountant

June 16, 2006

As management of the St. Clair Housing Commission we offer reviewers of this audit report this narrative discussion and analysis of the St. Clair Housing Commission's financial activities for the FYE 12/31/05. This discussion and analysis letter of the St. Clair Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the following Financial Statements.

The combined financial statements reflect all of the Commission's federally funded programs and activities in one place. The Commission reports all its activities and programs using the Enterprise Fund type model. HUD encourages PHAs to use this accounting method as it is normally used to account for "business-type activities" - activities similar to those found in the private sector. Enterprise Fund types use the accrual method of accounting, the same accounting method employed by most private-sector businesses. Under this method, revenues and expenditures may be reported as such even though no cash transaction has actually taken place.

### **Overview of the Financial Statements**

This annual report contains this *Management & Discussion Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. The Commission's financial statements are presented as fund financial statements because the Commission only has proprietary funds.

### **Required Financial Statements**

The Statement of Net Assets includes the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Commission creditors (liabilities). It also provides the basis for evaluating the liquidity and financial flexibility of the Commission.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

#### Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

#### Supplemental Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. HUD has established Uniform Financial Reporting Standards that require Housing Commissions to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) and is required to be included in the audit reporting package.

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Enterprise fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

#### St. Clair Housing Commission Programs:

Low Rent Public Housing: Under this program, the Housing Commission rents units that it owns to low-income elderly and family households. This program is operated under an Annual Contributions Contract with HUD. HUD provides Operating Subsidies to enable the Housing Commission to lease these units at a rate that is based on 30% of the household income.

Capital Fund Program: Under this program, the Housing Commission is awarded funds each year to use for Capital Needs. The Housing Commission also has the ability to use up to 20% of these funds, if need be, to supplement Operating Subsidies. This program is the primary funding source for physical improvements to its properties.

Section 8 Housing Choice Voucher Program: Under this program, the Housing Commission administers contracts with independent landlords to provide housing for low-income households. These units are not owned by the Housing Commission. The Housing Commission subsidizes the family's rent via a "Housing Assistance Payment" made directly to the landlord. HUD provides subsidy to the Housing Commission to enable the Housing Commission to set the rental rates at 30% of a participant's income.

### **Entity-Wide Financial Highlights:**

The following Federal Assistance was received during FYE 12/31/05:

	<u>FYE</u> <u>12/31/05</u>	<u>FYE</u> <u>12/31/04</u>	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
Public Housing Operating Subsidy	57,148	57,743	(595)	-1.03%
Capital Fund Program Grants	70,668	148,858	(78,190)	-52.53%
Sec. 8 Voucher	149,523	157,085	(7,562)	-4.81%
				-
Total	277,339	363,686	(86,347)	23.74%

The subsidies for both Public Housing and Section 8 remained relatively stable. The substantial decrease in the Capital Fund Program was due to the fact that work projects during FYE 12/31/04 progressed along at a much more rapid pace than the current year. During FYE 12/31/04, we used funding from three different Capital Fund Programs whereas during FYE 12/31/05 we had only the 2005 Capital Fund Program going. Please see details of work projects later in this report.



The following represents changes in the Balance Sheet:

	<u>FYE</u> <u>12/31/05</u>	<u>FYE</u> <u>12/31/04</u>	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
Cash & Investments	144,327	212,111	(67,784)	31.96%
Total Current Assets, net of inter-program (due from)	149,643	230,917	(81,274)	35.20%
Fixed Assets, Net of Depreciation	706,040	620,679	85,361	13.75%
Total Liabilities, net of inter-program (due to)	71,816	74,080	(2,264)	-3.06%
Total Equity/Net Assets	783,867	777,516	6,351	0.82%

Cash and Investments decreased substantially. The Capital Fund Program work project from both 2004 and 2005 was replacement of all our windows. As a result of this process, the window air conditioners we had no longer fit the new windows. The Board of Commissioners decided that our elderly tenants could not wait for a year (for the release of the 2006 Capital Fund Program) to have air conditioning re-instated. Therefore, new air conditioners were purchased and installed out of our Operating Reserves. The total cost of the air conditioners was \$80,031.

Total Current Assets decreased mainly due to the air conditioner purchases detailed above.

Fixed Assets increased by \$150,697; this increase represents the completion of the window replacement project funded through the Capital Fund Programs as well as the air conditioner project. Although Fixed Assets increased by \$150,697, this was partially offset by depreciation charges of \$65,337, resulting in the net increase stated in the above table.

Total Liabilities decreased by 3%, a change attributable to normal fluctuations in the course of ordinary business operations.

Overall, Total Net Assets (Equity) remained flat. Total Net Assets is comprised of two components: Invested in Capital Assets, which mirrors the increase in Fixed Assets, Net of Depreciation as explained above. The other component is Unrestricted Net Assets, or what used to be called Operating Reserves. This figure decreased due to the Air Conditioner project funded out of the Operating Budget instead of Capital Fund Program dollars. We hope to be able to use a future Capital Fund Program to replace the lost Operating Reserves.

The following schedule compares the Revenues and Expenses for the current and prior fiscal years:

*Statement of Revenues, Expenses, and Changes in Net Assets*

	<u>FYE</u> <u>12/31/05</u>	<u>FYE</u> <u>12/31/04</u>	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
<b>Revenues:</b>				
Tenant Revenue	181,839	160,641	21,198	13.2%
Other Revenue	5,144	8,423	(3,279)	-38.9%
Total PHA generated Revenue	186,983	169,064	17,919	10.6%
Operating Subsidies	206,671	214,828	(8,157)	-3.8%
Capital Grants	70,668	148,858	(78,190)	-52.5%
<b>Total Revenue</b>	<b>464,322</b>	<b>532,750</b>	<b>(68,428)</b>	<b>-12.8%</b>
<b>Expenses:</b>				
Administrative	91,212	89,214	1,998	2.2%
Tenant Services	1,141	1,650	(509)	-30.8%
Utilities	57,192	47,867	9,325	19.5%
Maintenance	99,590	93,579	6,011	6.4%
General	10,133	10,294	(161)	-1.6%
Extraordinary Maintenance		1,577	(1,577)	-
Housing Assistance Payments	133,137	140,699	(7,562)	-5.4%
Depreciation	65,337	55,169	10,168	18.4%
Total Expenses	457,742	440,049	17,693	4.0%
<b>Net Increase (Decrease)</b>	<b>6,580</b>	<b>92,701</b>		

*Revenues:*

St. Clair Housing Commission's primary revenue sources are subsidies and grants received by HUD. Operating Subsidy Revenue received from HUD in FYE 12/31/05 for Public Housing remained flat from FYE 12/31/04 to FYE 12/31/05. Operating Subsidy for Sec. 8 decreased from FYE 12/31/04 to 12/31/05. For FYE 12/31/05, revenue generated by the Commission accounted for \$186,983 (or 40% of total revenue), while HUD contributions accounted for \$277,339 (or 60% of total revenue). Investment Income decreased because all investments were cashed in order to purchase the air conditioners.

*Expenses:*

Total Expenses for FYE 12/31/05 were \$457,742 while for FYE 12/31/04 the total was \$440,049. This represents just a 4% increase in our Operating Costs, an amount that can be substantially attributed to inflation. The biggest area of increase was in utility cost, primarily the cost of electricity and natural gas.

*Budget Analysis:*

A Low Rent Public Housing Operating Budget for fye 12/31/05 was presented to and approved by the Board of Commissioners. We did not amend to budget during the fiscal year. Actual expenses exceeded the budgeted projections in most expense categories, with the total expenses at 104% of the budget figures. Actual revenues also exceeded the budgeted projections, representing 101% of the budgeted projection. However, the Public Housing Program still had Operating Income of just under \$1,300 (before considering the impact of the Air Conditioner project on the Operating Reserves).

**Entity-Wide Operational Highlights:**

The St. Clair Housing Commission provided the following housing for low- income elderly and low-income families:

	<u>FYE</u> 12/31/05	<u>FYE</u> 12/31/04
Low Rent Public Housing	62	62
Sec. 8 Voucher	30	30

During FYE 12/31/05, St. Clair Housing Commission maintained a lease-up rate of 99.2% in its Public Housing Program and a lease-up rate of 100% in its Section 8 program. These lease-up rates are well in excess of HUD guidelines.

During FYE 12/31/05, our Capital projects were:

- The completion of the window replacement project. The total cost of the window replacement project was \$219,526; of this, \$70,668 was spent during FYE 12/31/05.
- Purchase and installation of new air conditioners. The total cost of the air conditioners was \$80,031, all spent during FYE 12/31/05.

### **Economic Factors and Next Year's Budget and Rates**

The Housing Commission is primarily dependent upon HUD for the funding of operations as well as capital needs. Therefore, the Housing Commission is affected more by the Federal Budget than by local economic conditions. The funding of programs could be significantly affected by the Federal Budget.

Although the Housing Commission remains concerned about the future levels of HUD funding due to the state of the federal budget, we feel that we are both financially and operationally in a strong position to continue to provide safe, sanitary, and decent housing to our residents.

### **Request for Information**

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in its finances. Questions or comments concerning any of the information contained in this report or request for additional information should be directed to:

Lorena Loren, Executive Director  
St. Clair Housing Commission  
400 S. Third St.  
St. Clair, MI 48079

ST. CLAIR HOUSING COMMISSION  
Statement of Net Assets  
December 31, 2005

**ASSETS**

**C-3068**

CURRENT ASSETS

Cash	\$ 144,327
Accounts Receivable-Other	2,797
Prepaid Expenses & Other Assets	<u>2,519</u>

Total Current Assets	\$ 149,643
----------------------	------------

NON CURRENT ASSETS

Land	\$ 30,000
Buildings & Improvements	898,980
Furniture, Equipment- Dwellings	39,417
Furniture, Equipment- Administrative	32,325
Leasehold Improvements	777,917
Accumulated Depreciation	<u>(1,072,599)</u>

Total Non Current Assets	<u>706,040</u>
--------------------------	----------------

<u>TOTAL ASSETS</u>	\$ <u>855,683</u>
---------------------	-------------------

ST. CLAIR HOUSING COMMISSION  
Statement of Net Assets  
December 31, 2005

LIABILITIES & NET ASSETS

C-3068

LIABILITIES:

CURRENT LIABILITIES

Accounts Payable	\$	13,545	
Accrued Wages & Payroll Taxes		16,864	
Accrued Compensated Absences		1,717	
Tenants Security Deposit		13,875	
Other Current Liabilities		<u>10,415</u>	
<u>Total Current Liabilities</u>	\$		56,416

NONCURRENT LIABILITIES

Accrued Compensated Absences		<u>15,400</u>	
<u>Total Liabilities</u>	\$		71,816

NET ASSETS:

Investment in Fixed Assets net of Related Debt	\$	706,040	
Unrestricted Net Assets		<u>77,827</u>	
<u>Total Net Assets</u>			<u>783,867</u>

<u>TOTAL LIABILITIES &amp; NET ASSETS</u>	\$	<u>855,683</u>
---	----	----------------

The Accompanying Footnotes are an Integral Part of the Financial Statements

ST. CLAIR HOUSING COMMISSION  
Combined Statement of Revenues, Expenses, and Changes in Net Assets  
For the year ended December 31, 2005

OPERATING REVENUE

Tenant Rental Revenue	\$ 177,988	
Tenant Revenue-Other	3,851	
HUD Grants	206,671	
Other Income	<u>5,144</u>	
<u>Total Operating Revenue</u>		\$ 393,654

OPERATING EXPENSES

Administrative	\$ 91,212	
Tenant Services	1,141	
Utility Expenses	57,192	
Ordinary Maintenance	99,590	
General Expenses	<u>10,133</u>	
<u>Total Operating Expenses</u>		<u>259,268</u>
<u>Operating Income (Loss)</u>		\$ 134,386

NONOPERATING REVENUE (EXPENSES)

Housing Assistance Payments	\$ (133,137)	
Depreciation Expenses	<u>(65,337)</u>	
<u>Total NonOperating Revenue (Expenses)</u>		<u>(198,474)</u>
<u>Income (Loss) before Contributions</u>		\$ (64,088)

CAPITAL CONTRIBUTIONS

		<u>70,668</u>
<u>Changes in Net Assets</u>		\$ 6,580
Total Net Assets- Beginning	\$ 777,516	
Adjustments to prior year funding	<u>(229)</u>	<u>777,287</u>
 Total Net Assets- Ending		 \$ <u>783,867</u>

The Accompanying Notes are an Integral part of the Financial Statements

ST. CLAIR HOUSING COMMISSION  
Combined Statement of Cash Flows  
For the Year Ended December 31, 2005

Business Type Activities

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from Customers	\$	181,839
Payments to Suppliers		(118,274)
Payments to Employees		(85,716)
HUD Grants		277,339
Other Receipts (Payments)		<u>5,144</u>
Net Cash Provided (Used) by Operating Activities	\$	260,332

**CASH FLOWS FROM CAPITAL AND  
RELATED FINANCING ACTIVITIES**

Purchases of Capital Assets	\$	<u>(150,698)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$	109,634
Balance- Beginning of Year		<u>34,693</u>
Balance- End of Year	\$	<u>144,327</u>

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET  
CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

Net Profit or (Loss)	\$	6,580
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation		65,337
Changes in Assets (Increase) Decrease:		
Receivables (Gross)		5,107
Investments		177,418
Prepaid Expenses		8,383
Changes in Liabilities Increase (Decrease):		
Accounts Payable		(6,877)
Accrued Liabilities		2,529
Security Deposits		(318)
Accrued Liabilities-Other		<u>2,173</u>
Net Cash Provided by Operating Activities	\$	<u>260,332</u>

The Accompanying Notes are an Integral part of the Financial Statements



ST. CLAIR HOUSING COMMISSION  
Notes to Financial Statements  
December 31, 2005

NOTE 1: Summary of Significant Accounting Policies

**Reporting Entity-**

St. Clair Housing Commission, St. Clair, Michigan, (Commission) was created by ordinance of the city of St. Clair. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 59-1	Low rent program	62 units
MI 28-E052	Section 8 Existing	30 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, there are no component units.

These criteria were considered in determining the reporting entity.

**Basis of Presentation-**

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

## Notes to Financial Statements- continued

### Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

### Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1998, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, provided that they do not conflict with Governmental Accounting Standards Board (GASB) pronouncements.

### Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

### Assets, Liabilities, and Net Assets-

#### Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Notes to Financial Statements- continued

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is reported as Invested in Capital Assets, Net of Related Debt.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	3-10 years

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$ 50,220
Savings Accounts	94,007
Petty Cash	<u>100</u>
Financial Statement Total	\$ <u>144,327</u>

Notes to Financial Statements- continued

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	<u>Categories</u>			<u>Carrying</u>	<u>Market</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
Cash:					
Checking A/C's	\$ 50,220	\$	\$	\$ 50,220	\$ 50,220
Petty Cash	100			100	100
Money Market	<u>94,007</u>			<u>94,007</u>	<u>94,007</u>
Total Cash	\$ <u>144,327</u>	\$	\$	\$ <u>144,327</u>	\$ <u>144,327</u>

In addition to the above analysis, the Commission has adopted an investment policy as required by P.A. 196 of 1997; Michigan Compiled Law 129.95.

Note 3: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>End</u>
	<u>of Year</u>			<u>of Year</u>
Land	\$ 30,000	\$	\$	\$ 30,000
Buildings	898,980			898,980
Furniture & Equipment-Dwellings	39,417			39,417
Furniture & Equipment-Admin	32,325			32,325
Leasehold Improvements	<u>627,219</u>	<u>150,698</u>		<u>777,917</u>
	\$ 1,627,941	\$ 150,698	\$	\$ 1,778,639
Less Accumulated Depreciation	<u>1,007,262</u>	<u>65,337</u>		<u>1,072,599</u>
	\$ <u>620,679</u>	\$ <u>85,361</u>	\$	\$ <u>706,040</u>

Note 4: Accrued Liabilities.

Accrued liabilities consists of the following:

Accrued Utilities Payable	\$ <u>10,415</u>
---------------------------	------------------

Notes to Financial Statements- continued

Note 5: Pension Plan

The Commission participates in a pension plan, the Municipal Employees' Retirement System, (MERS). MERS is a Defined Benefit Program which operates within the Michigan Department of Management and Budget, Bureau of Retirement Systems. The pension covers all full time employees and requires a minimum contributions by the employee. Statistical information concerning the plan can be obtained from MERS, which is contained in their annual report.

Note 6 :Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 4,247,000
General Liability	1,000,000
Dishonest Employees	25,000
Worker's Compensation and other riders:	
Coverage's required by the State of Michigan	

Note 7: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 8: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

## St. Clair Housing Commission

31-Dec-05

MI052

Combining Balance Sheet		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Projects Funds 14.872	TOTAL
Line Item #					
	<b>ASSETS:</b>				
	<b>CURRENT ASSETS:</b>				
	Cash:				
111	Cash - unrestricted	131,868	12,459	-	144,327
112	Cash - restricted - modernization and development	-			-
113	Cash - other restricted				-
114	Cash - tenant security deposits				-
100	Total cash	131,868	12,459	-	144,327
	Accounts and notes receivables:				
121	Accounts receivable - PHA projects				-
122	Accounts receivable - HUD other projects	-	2,797	-	2,797
125	Accounts receivable - miscellaneous				-
126	Accounts receivable- tenants - dwelling rents	-			-
126.1	Allowance for doubtful accounts - dwelling rents				-
127	Notes and mortgages receivable- current				-
128	Fraud recovery				-
128.1	Allowance for doubtful accounts - fraud				-
129	Accrued interest receivable	-			-
120	Total receivables, net of allowances for doubtful accounts	-	2,797	-	2,797
	Current investments				-
131	Investments - unrestricted	-			-
132	Investments - restricted				-
142	Prepaid expenses and other assets	2,519			2,519
143	Inventories				-
143.1	Allowance for obsolete inventories				-
144	Interprogram - due from	14,400	-	-	14,400
146	Amounts to be provided				-
150	TOTAL CURRENT ASSETS	148,787	15,256	-	164,043
	<b>NONCURRENT ASSETS:</b>				
	Fixed assets:				
161	Land	30,000			30,000
162	Buildings	898,980			898,980
163	Furniture, equipment & machinery - dwellings	39,417	-	-	39,417
164	Furniture, equipment & machinery - administrative	32,325	-	-	32,325
165	Leasehold improvements	707,249	-	70,668	777,917
166	Accumulated depreciation	(1,072,206)	-	(393)	(1,072,599)
160	Total fixed assets, net of accumulated depreciation	635,765	-	70,275	706,040
171	Notes and mortgages receivable - non-current				-
172	Notes and mortgages receivable-non-current-past due				-
174	Other assets				-
175	Undistributed debits				-
176	Investment in joint ventures				-
180	TOTAL NONCURRENT ASSETS	635,765	-	70,275	706,040
190	<b>TOTAL ASSETS</b>	784,552	15,256	70,275	870,083

	<b>LIABILITIES AND EQUITY:</b>				
	<b>LIABILITIES:</b>				
	<b>CURRENT LIABILITIES</b>				
311	Bank overdraft				-
312	Accounts payable ≤ 90 days	13,145	400		13,545
313	Accounts payable > 90 days past due				-
321	Accrued wage/payroll taxes payable	16,864	-		16,864
322	Accrued compensated absences	1,717			1,717
324	Accrued contingency liability				-
325	Accrued interest payable				-
331	Accounts payable - HUD PHA programs		-		-
332	Accounts Payable - PHA Projects				
333	Accounts payable - other government	-	-	-	-
341	Tenant security deposits	13,875			13,875
342	Deferred revenues	-	-		-
343	Current portion of Long-Term debt - capital projects				-
344	Current portion of Long-Term debt - operating borrowings				-
345	Other current liabilities	10,415			10,415
346	Accrued liabilities - other	-	14,400		14,400
347	Inter-program - due to	-	-	-	-
310	<b>TOTAL CURRENT LIABILITIES</b>	<b>56,016</b>	<b>14,800</b>	<b>-</b>	<b>70,816</b>
	<b>NONCURRENT LIABILITIES:</b>				
351	Long-term debt, net of current- capital projects				-
352	Long-term debt, net of current- operating borrowings				-
353	Noncurrent liabilities- other	-			-
354	Accr. Comp. Absences- non current	15,400			15,400
350	<b>TOTAL NONCURRENT LIABILITIES</b>	<b>15,400</b>	<b>-</b>	<b>-</b>	<b>15,400</b>
300	<b>TOTAL LIABILITIES</b>	<b>71,416</b>	<b>14,800</b>	<b>-</b>	<b>86,216</b>
	<b>EQUITY:</b>				
501	Investment in general fixed assets				-
	<b>Contributed Capital:</b>				
502	Project notes (HUD)	-			-
503	Long-term debt - HUD guaranteed	-			-
504	Net HUD PHA contributions	-			-
505	Other HUD contributions				-
507	Other contributions	-			-
508	Total Contributed Capital	-	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	635,765	-	70,275	706,040
	<b>Reserved fund balance:</b>				
509	Reserved for operating activities				-
510	Reserved for capital activities				-
511	Total reserved fund balance	-	-	-	-
512	Undesignated fund balance/retained earnings	-	-	-	-
512.1	Unrestricted Net Assets	77,371	456		77,827
513	<b>TOTAL EQUITY</b>	<b>713,136</b>	<b>456</b>	<b>70,275</b>	<b>783,867</b>
600	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>784,552</b>	<b>15,256</b>	<b>70,275</b>	<b>870,083</b>

- - - -

## St. Clair Housing Commission

31-Dec-05

MI052

Combining Income Statement		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Projects Funds 14.872	TOTAL
Line Item #				-	
	<b>REVENUE:</b>	-	-		
703	Net tenant rental revenue	177,988	-		177,988
704	Tenant revenue - other	3,851			3,851
705	Total tenant revenue	181,839	-	-	181,839
706	HUD PHA grants	57,148	149,523	70,668	277,339
708	Other government grants				-
711	Investment income - unrestricted	(393)	232	-	(161)
712	Mortgage interest income				-
714	Fraud recovery				-
715	Other revenue	5,305	-	-	5,305
716	Gain or loss on the sale of fixed assets	-			-
720	Investment income - restricted				-
700	<b>TOTAL REVENUE</b>	243,899	149,755	70,668	464,322
	<b>EXPENSES:</b>				
	Administrative				
911	Administrative salaries	35,244	9,000	-	44,244
912	Auditing fees	3,650	-		3,650
913	Outside management fees				-
914	Compensated absences	1,473			1,473
915	Employee benefit contributions- administrative	18,820	4,500	-	23,320
916	Other operating- administrative	15,360	3,165	-	18,525
	Tenant services				
921	Tenant services - salaries				-
922	Relocation costs	-			-
923	Employee benefit contributions- tenant services				-
924	Tenant services - other	1,141			1,141
	Utilities				
931	Water	5,891			5,891
932	Electricity	26,799			26,799
933	Gas	24,502			24,502
934	Fuel				-
935	Labor				-
937	Employee benefit contributions- utilities				-
938	Other utilities expense	-			-
	Ordinary maintenance & operation				
941	Ordinary maintenance and operations - labor	41,472			41,472
942	Ordinary maintenance and operations - materials & other	12,416		-	12,416
943	Ordinary maintenance and operations - contract costs	23,608		-	23,608
945	Employee benefit contributions- ordinary maintenance	22,094			22,094
	Protective services				



[illegible]

ST. CLAIR HOUSING COMMISSION  
Report on Compliance Based on an Audit  
of Financial Statements Performed in  
Accordance with Government Auditing Standards  
December 31, 2005

I have audited the financial statements of St. Clair Housing Commission as of and for the year ended December 31, 2005, and have issued my report dated June 16, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As a part of obtaining reasonable assurance about whether St. Clair Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, I do not express such an opinion.

Internal Control over Financial Reporting

In planning and performing my audit, I considered St. Clair Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. I did not note any matters relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect St. Clair Housing Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe no reportable conditions or material weaknesses exist.

This report is intended solely for the information and use of management and the U. S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

June 16, 2006

ST. CLAIR HOUSING COMMISSION  
Status of Prior Audit Findings  
December 31, 2005

The prior audit of the St. Clair Housing Commission for the period ended December 31, 2004, contained two audit findings, the actions taken by the Commission are as follows:

- 1) Credit Card Policy- the Commission passed an acceptable credit card policy.
- 2) Section 8 Tenant Discrepancies- the errors reported in the prior audit have been satisfactorily addressed.

ST. CLAIR HOUSING COMMISSION  
Schedule of Findings and Questioned Cost  
December 31, 2005

Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing		X
Housing Assistance Program		X
Capital Fund Projects		X

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted \_\_\_\_\_ Yes        X   No

Reportable condition(s) noted \_\_\_\_\_ Yes        X   No

Non Compliance material to financial statements noted \_\_\_\_\_ Yes        X   No

Report on compliance for Federal programs-

Unqualified

Material weakness(es) noted \_\_\_\_\_ Yes        X   No

Reportable condition(s) noted \_\_\_\_\_ Yes        X   No

Non Compliance material to financial statements noted \_\_\_\_\_ Yes        X   No

Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did qualify as a low risk auditee.

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Low Rent Public Housing	No	None	None
Housing Assistance Program	No	None	None
Capital Fund Project	No	None	None